

HIGHLIGHTS OF FINANCE COMMITTEE DEFICIT REDUCTION DECISION (to date)

(Savings estimates are for period 1984-87)

Spending Restraint

- o Medicare Part B Premium. Slow the increase in the premium as a percent of program costs between 1985 and 1990. (\$0.9 billion)
- o Delay initial Medicare eligibility until month after an individual's 65th birthday. (\$800 million)
- o Working age. Non-working spouses age 65 to 69 could elect primary medical coverage under spouse's employer health plan rather than Medicare regardless of working spouse's age. (\$1.1 billion)
- o Physican freeze. Continue until July 1986 a freeze on physican's fees for those unwilling to accept assignment for all services to Medicare patients. (\$1.5 billion)
- o Fee schedule for lab services. Payments for clinical lab services would be held at 62 percent of prevailing charge levels through October 1987 (\$900 million)
- o Limit on hospital costs. For FY 1985 and FY 1986 increases in hospital cost payments under Medicare would be limited to one-half percent less than the hospital wage and price index increase. (\$1.0 billion)
- o Grace Commission. Improved cash management technicians (e.g. faster deposits of receipts to the government), improving income verification procedures for benefit programs, and using IRS refund offsets to collect debts owed the government would be implemented. (\$3.1 billion)
- o Debt service. \$9.6 billion.

Revenue Increases

- o Tax reform. New rules would be applied to limit tax shelters in such areas as partnership allocation of expenses and income interest deductions on discount obligations, transactions between related parties, current deductions for future liabilities, and corporate deductions for extraordinary dividends received. (\$13.8 billion)
- o Tax benefits. Where a taxpayer receives a refund or other recovery for State taxes or other situations that previously gave rise to a deduction, the tax benefit portion of the deduction would be brought back into income first. (\$800 million)

- o Real Estate. Depreciation rules (18 years for all structures except low income housing) and recapture rules for real property would be adjusted. (\$3.2 billion)
- o Freeze. Expensing for small business investment would be frozen at \$5,000, the cost of used property eligible for the ITC would be frozen at \$125,000, and the foreign earned income exclusion would be frozen at \$80,000. (\$1.9 billion)
- o Distilled Spirits. Federal excise tax would be increased \$2.00 per proof gallon (\$1.0 billion)
- o Income Averaging. The base period for determining the income averaging threshold would be reduced to 3 years and the formula slightly modified. (\$1.6 billion)
- o Earnings and Profits. The definition of earnings and profits would be modified so that it more closely reflects a corporation's economic income rather than its taxable income. This change will reduce a corporation's ability to pay tax-free dividends. (\$1.7 billion)
- o Add-Ons. In addition to miscellaneous items, the Committee agreed to phase in spousal IRAs; an R&D package; foundation tax changes; extend the targeted jobs credit for 3 years; enterprise zones; increase the earned income credit; Foreign Sales Corporations; energy credit extension with credit reordering; and others.

TALKING POINTS ON PENDING FOOD STAMP LEGISLATION

UNITED JEWISH APPEAL GROUP

Note: This group has told Walt they are interested in budget issues affecting food stamps.

- DURING THE BUDGET PROCESSES OF 1981 and 1982, CONGRESS, IN A BIPARTISAN COOPERATIVE EFFORT, ENACTED SAVINGS OF ABOUT \$7 BILLION IN THE FOOD STAMP PROGRAM OVER THE THREE YEAR PERIOD, FY 1982-1985.
 - THIS WAS ACCOMPLISHED BY IMPROVING TARGETTING OF BENEFITS TO THE MOST NEEDY, REFORM MEASURES TO CURTAIL FRAUD AND ABUSE, AND A STRENGTHENING OF STATE ADMINISTRATION OF THE PROGRAM.
 - WITH REPUBLICANS AND DEMOCRATS WORKING TOGETHER, THE CONGRESS REDESIGNED A MAJORITY OF THE PRESIDENT'S ORIGINAL BUDGET PROPOSALS FOR THE FOOD PROGRAM AREA IN ORDER TO UTILIZE SAVINGS OPTIONS THAT WOULD MINIMIZE THE IMPACT ON LOW INCOME AMERICANS. BOTH SIDES RECOGNIZED THE NEED TO CONTROL THE GROWTH OF FEDERAL SPENDING IN THIS PROGRAM.
- A DOLE-DOMENICI BILL -- THE DOMESTIC FOOD ASSISTANCE ACT OF 1984 -- IS IN THE WORKS, WHICH WOULD IMPLEMENT SOME OF THE RECOMMENDATIONS OF THE PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE, AND RESTORE ABOUT \$300 MILLION DOLLARS IN BENEFITS TO FOOD STAMP RECIPIENTS.
- A BILL, INTRODUCED BY CONGRESSMAN PANETTA ON THE HOUSE SIDE WOULD ADD \$1.3 BILLION TO FOOD STAMPS -- THERE IS SOME QUESTION AS TO WHETHER THIS ENTIRE AMOUNT IS ABSOLUTELY NECESSARY GIVEN THE CURRENT BUDGET CLIMATE AND HUGE DEFICITS.
- CONGRESSMAN TED WEISS HAS ALSO INTRODUCED LEGISLATION TO SEPARATE THE SHELTER AND DEPENDENT CARE DEDUCTIONS.

TALKING POINTS ON HUNGER

- AS EVERYONE IS AWARE, IT IS VERY DIFFICULT TO DOCUMENT "HUNGER" ON A NATIONWIDE BASIS. HOWEVER, POLICYMAKERS IN CONGRESS ARE CERTAINLY AWARE OF THE KIND OF SERIOUS PROBLEMS THAT EXIST IN LOCAL COMMUNITIES HARD-HIT BY INCREASED UNEMPLOYMENT. ALTHOUGH OUR ECONOMY IS MANIFESTING SOME PROMISING SIGNS OF A CONTINUING RECOVERY, IT WILL TAKE A WHILE BEFORE THE EFFECTS OF THIS ECONOMIC REVIVAL REACH MANY OF THOSE WHO HAVE SUFFERED MOST.
- IN THE MEANTIME, ALL THREE LEVELS OF GOVERNMENT, ALONG WITH LOCAL CHARITABLE ORGANIZATIONS, MUST CONTINUE THEIR EFFORTS TO PROVIDE FOOD ASSISTANCE. THE FEDERAL GOVERNMENT CANNOT, AND SHOULD NOT, ASSUME TOTAL RESPONSIBILITY; ALL OF THESE ENTITIES WORKING TOGETHER COMPRISE A COMPREHENSIVE FOOD ASSISTANCE NETWORK TO PROVIDE ASSISTANCE SOMEWHERE ALONG THE LINE. CHURCHES, SOUP KITCHENS, AND FOOD BANKS ARE TO BE COMMENDED FOR THE TREMENDOUS SERVICES THEY HAVE PROVIDED TO THOSE WHO, FOR SOME REASON, ARE NOT BEING REACHED OR SATISFIED BY THE BENEFITS OF GOVERNMENT NUTRITION PROGRAMS.
- ATTEMPTS TO ADDRESS THE FOOD ASSISTANCE PROBLEMS THAT HAVE BEEN BROUGHT TO OUR ATTENTION IN THE CONGRESS HAVE BEEN SOMEWHAT HINDERED BY POLITICIZATION OF THE HUNGER ISSUE. POLITICAL AND ADVOCACY REPORTS, THAT DISTORT THE REALITY OF THE SITUATION, AS WELL AS EXAGGERATED MEDIA PRESENTATIONS, ARE NOT HELPFUL, BUT

- 2 -

ONLY SERVE TO GENERATE A LOT OF COUNTERPRODUCTIVE RHETORIC.

-- FOR EXAMPLE, SENATOR KENNEDY'S REPORT DID LITTLE MORE THAN COMPILE ADVOCACY REPORTS THAT HAD BEEN IN EXISTENCE MONTHS EARLIER. HIS SO-CALLED "HUNGER" TOUR CONSISTED MOSTLY OF HOLDING PRESS CONFERENCES IN VARIOUS CITIES AROUND THE COUNTRY. HIS RECOMMENDATIONS TOTAL 2.5 BILLION DOLLARS. A 10% INCREASE IN SPENDING FOR THE FOOD STAMP PROGRAM, WHICH IS THE PRIMARY PROPOSAL, WOULD COST TAXPAYERS ABOUT \$1.7 BILLION -- AND IT IS SO ARBITRARILY CONSTRUCTED^{THAT IT} WOULD DO LITTLE MORE THAN THROW MONEY AT THE PROBLEM.

- THIS PAST JANUARY, THE PRESIDENT'S TASK FORCE ON FOOD ASSISTANCE PRESENTED ITS REPORT AND MADE ITS RECOMMENDATIONS TO ADDRESS HUNGER PROBLEMS AROUND THE COUNTRY. ALTHOUGH THEY DISCOVERED THAT "HUNGER" WAS DIFFICULT TO QUANTIFY AND DOCUMENT, THEY DID RECOGNIZE THAT IT DOES EXIST IN THIS COUNTRY, AND MADE SOME SUBSTANTIVE RECOMMENDATIONS TO ADDRESS THE PROBLEMS THEY FOUND. AMONG THEIR RECOMMENDATIONS WERE RESTORING ONE PERCENT TO THE 99% THRIFTY FOOD PLAN, RAISING THE OUTMODED ASSETS LIMITS, AND MAKING THE PROGRAM MORE ACCESSIBLE TO POTENTIALLY NEEDY RECIPIENTS.

-- HOWEVER, THE PROPOSAL FOR AN OPTIONAL STATE AUTONOMOUS FOOD ASSISTANCE PROGRAM (STATE BLOCK GRANT) IS SOMETHING I CANNOT SUPPORT, BECAUSE I BELIEVE THAT THE FEDERAL GOVERNMENT SHOULD MAINTAIN ITS LEADERSHIP ROLE IN THE NUTRITION PROGRAM AREA.

- 3 -

-- FURTHER, THEIR PROPOSAL TO MODIFY THE EXISTING ERROR RATE SANCTION SYSTEM SEEMS UNNECESSARY IN LIGHT OF THE FACT THAT THE CURRENT SYSTEM (A DOLE PROPOSAL, I MIGHT ADD) APPEARS TO BE WORKING.

- CONTRARY TO WHAT ADVOCACY GROUPS WOULD TRY TO CLAIM, THERE IS LITTLE DIRECT EVIDENCE THAT BUDGET CUTS IN FEDERAL FOOD PROGRAMS DURING 1981 AND 1982 HAVE CONTRIBUTED SIGNIFICANTLY TO THE HUNGER PROBLEMS THAT EXIST. IN TESTIMONY AT A JOINT SENATE-HOUSE NUTRITION SUBCOMMITTEE HEARING ON JANUARY 20, BOB GREENSTEIN, DIRECTOR OF THE CENTER ON BUDGET AND POLICY PRIORITIES, STATED:

"I THINK THE CURRENT HUNGER PROBLEM IS A COMBINATION OF... FACTORS, NO ONE OF WHICH BY ITSELF WOULD HAVE CAUSED IT TO [BECOME] AS SEVERE...AS IT IS. ONE IS THE INCREASED UNEMPLOYMENT. ONE IS BUDGET REDUCTIONS AND CONDITIONS IN...PROGRAMS OTHER THAN FOOD PROGRAMS. . . IN FOOD STAMPS, I DON'T THINK THERE IS ANY ONE PARTICULAR CHANGE THAT HAD A DEVASTATING EFFECT . . . I HAVE NEVER SAID OR INTENDED TO SAY THAT THE WHOLE SITUATION WAS CREATED BY CUTS JUST IN FOOD STAMPS OR CHILD NUTRITION. IT WAS NOT."

- DURING THE BUDGET PROCESSES OF 1981 AND 1982, CONGRESS, IN A BIPARTISAN COOPERATIVE EFFORT, ENACTED SAVINGS OF ABOUT \$7 BILLION IN THE FOOD STAMP PROGRAM OVER THE THREE-YEAR PERIOD FY 1982-1985.
 - THIS WAS ACCOMPLISHED BY IMPROVED TARGETING OF BENEFITS TO THE MOST NEEDY, REFORM MEASURES TO CURTAIL FRAUD AND ABUSE, AND A STRENGTHENING OF STATE ADMINISTRATION OF THE PROGRAM.
 - WITH REPUBLICANS AND DEMOCRATS WORKING TOGETHER, THE CONGRESS REDESIGNED A MAJORITY OF THE PRESIDENT'S ORIGINAL BUDGET PROPOSALS FOR THE FOOD PROGRAM AREA IN ORDER TO UTILIZE SAVINGS OPTIONS THAT WOULD MINIMIZE THE IMPACT ON LOW-INCOME AMERICANS.

- 4 -

-- FURTHER, THE CHANGES MADE HELPED TO ENHANCE THE PROGRAM'S
IMAGE WITH THE AMERICAN PUBLIC.

- DESPITE BUDGET CUTS, 23.4 MILLION PEOPLE ARE NOW PARTICIPATING
IN THE FOOD STAMP PROGRAM, IN CONTRAST TO 21 MILLION BACK IN
1980, WHICH DEMONSTRATES THAT THE CHANGES MADE IN THE PROGRAM
DID ACTUALLY IMPROVE TARGETING OF BENEFITS TO THE MOST NEEDY
PARTICIPANTS. IN ADDITION TO MORE PEOPLE RECEIVING
BENEFITS FROM THE PROGRAM, THE FEDERAL GOVERNMENT IS SPENDING
MORE FUNDS ON NUTRITION PROGRAMS THAN EVER BEFORE -- A TOTAL OF
ABOUT \$18 BILLION FOR FY '83 ON ABOUT 10 SEPARATE PROGRAMS,
INCLUDING FOOD STAMP PROGRAM EXPENDITURES OF ABOUT \$12.8 BILLION
FOR FY 1983, AND A PROJECTED \$12.3 BILLION FOR FY 1984.

REMARKS OF SENATOR DOLE

UNITED JEWISH APPEAL FEDERATION CAMPAIGN

Tuesday, March 27, 1984--12:30 p.m.--SR 325

Why worry about the deficit--What
does it mean to the average American?

- If nothing is done to reduce deficit spending over the next five years, the total Federal debt will nearly double to over \$10,000 for every man, woman and child in America.
- At this level, by 1989 it will take one-half of all Americans' personal income tax payments just to pay the Federal Government's interest bill.
- By 1989 the annual Federal interest cost will amount to \$250 billion--about \$1,100 for every American.
- That \$1,100 per person interest cost is equal to 40% of each person's annual expenditure for food.
- Virtually all economists agree that the sustained enormous deficits that we are facing will be economically harmful.
- Many Americans will find home-buying more difficult with higher deficits. Consider a family purchasing a home at today's current interest rate, averaging about 12-1/2%, with a \$55,000 mortgage. If the deficits push interest rates up, total interest costs over the 30 year term will be \$15,500 more for each one percentage point increase.
- All Americans will directly feel the results of high deficits if they lose jobs as a result of a business slowdown resulting from a crowding out of private investment, or if they lose jobs to imported products made more competitive because of an abnormally strong dollar or if they end up paying higher prices because inflation is rekindled.

What is the Federal deficit likely to be?

- The estimates of future Federal deficits are quite sensitive to one's economic assumptions. Yet even under the most optimistic of economic assumptions, the deficit will remain at historically high \$200 billion levels over the foreseeable future, unless drastic action is taken.
- Assuming an extremely strong recovery (4% real growth of GNP) is sustained over the next few years and all of the Administration's

proposed spending cuts and revenue proposals are enacted, the deficits are still projected to be:

<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
\$180 billion	\$177 billion	\$180 billion	\$152 billion

- If economic growth is not so strong (3% real GNP growth) and interest rates are slightly higher (9% T-bill rate), and Administration's spending cuts are not enacted, the projected deficits would be:

<u>FY 1985</u>	<u>FY 1986</u>	<u>FY 1987</u>	<u>FY 1988</u>
\$202.6 billion	\$236.7 billion	\$270 billion	\$290.1 billion

- If we have an economic downturn during this period, we may be facing \$300 plus billion deficits.

Why should we act this year on the deficit

- If we fail to deal with the deficit now, the problem will become worse. Current projections showing deficits holding in the range of \$200 billion probably are optimistic, as they are based upon assumption of steady economic growth through 1989. However, postwar experience suggests that the average recovery lasts only 3 years, making a recession in 1985 or 1986 likely.
- If we postpone action until 1985 and we do suffer another recession, the deficits would then hit the \$300-\$400 billion range. At that point, it may be difficult to cut the deficit without further weakening the economy. Our choices would become very difficult indeed.
- Of course, failure to reduce the deficit in 1984 makes a recession likely to come sooner, as interest rates are forced up by private credit demands clashing with Treasury borrowing needs.
- By postponing action of the deficit, we increase the risk of recession. The average increase in the unemployment rate during a postwar recession is about three points, or three million jobs. By acting to reduce the deficit, we can significantly lower the risk that three million workers will lose their jobs in 1985 and 1986.

- The rise in interest rates will depress auto sales, housing starts, and capital goods orders. It is widely recognized that sustained economic recovery will be impossible unless these key sectors are healthy.
- Alternatively, the Fed could offset the deficits' impact on interest rates by "monetizing" the debt, leading to a resurgence of inflation in 1985. If we do nothing, we will force the Fed to choose between high interest rates and recession, or inflation.
- Failure to reduce the deficits in 1984 may also depress the stock market. A key factor in determining equity and bond prices is investors' confidence that Congress and the Administration can produce a sound fiscal policy. If we send the signal that the deficit problem is secondary to politics, equity and bond prices may fall.
- The exploding cost of servicing the Federal debt will make controlling spending more difficult each year, unless the deficits are reduced soon. Each year that we add \$200 billion in new Federal debt adds about \$15 billion to the next year's interest costs.
- The economy is now on a path where more and more of its resources go just to pay off the debt. According to economist Lawrence Summers, "It's a case where the miracle of compounding (interest) works against you."
- In 1976 net interest accounted for just 7% of total outlays But if we do nothing, by 1988 the total Federal debt will be more than half of total GNP, and the net interest cost of servicing this debt will reach 14% of all spending. Each year that we do nothing, the share of Federal spending that we can control gets smaller.
- Recent studies indicate that current and prospective budget deficits may have helped to overvalue the American dollar. If the deficits are not reduced, the problem of overvaluation could become worse, weakening the competitive position of American exports and costing the U.S. jobs in such industries as steel, electronics, and agriculture.

Deficit downpayment in 1984

- The President took the lead to begin a deficit-reduction effort in 1984 by calling for bipartisan negotiations on a package to reduce the deficit by \$100 billion over 3 years. Now he has worked with congressional Republicans to outline a \$150 billion package including defense savings (\$40 billion), nondefense cut

(\$43 billion), revenue increases (\$48 billion), and debt service savings (\$18 billion). As the President suggests, we can work with a variety of modest spending reductions, and tax reforms that raise revenue, to enact a significant deficit "downpayment" in 1984.

- Even though election-year politics makes it difficult to launch the kind of major assault on the deficit that we really need, that is no reason to do nothing. Making a noticeable dent in the deficit will make our job easier in the years ahead. Even more importantly, it will demonstrate that we can face up to the deficit problem even in an election year.
- The Finance Committee has agreed on spending and revenue options just within its jurisdiction that achieve about \$74 billion of the "downpayment" goal. To do that we are drawing on a number of proposals that have been on the table for some time, including some already in the legislative "pipeline":
 - Items included in the FY 1984 reconciliation bill, S. 2062, which awaits Senate action
 - Treasury-endorsed proposals on tax shelters and other abuses
 - Administration -proposed spending cuts that were not followed through on last year
 - Administrative savings and other proposals made by the Grace Commission
 - Additional proposals considered in the Finance Committee last fall
- Target. With an overall goal of \$150 billion in savings, we can achieve \$21.4 billion from revenue changes pending in S. 2062, \$3.8 billion in spending reduction from Finance Committee programs in S. 2062, \$3.1 billion from Grace Commission recommendations, \$9.6 billion in debt service savings, and the remainder from additional spending and tax changes aimed at desirable policy reforms.
- Feasibility. The key is to keep following the President's suggestion and concentrate on relatively non-contentious items, avoiding things like the third-year tax cut and indexing, mean-tested entitlements, social security, and the like. Our effort must be bipartisan and balanced to do the job: Democrats and Republicans alike will benefit by cooperating to take swift action on the deficit. Time is of the essence if we are to make a beginning this year.

- Initial Finance Action. On February 23, the Finance Committee began action to reduce the deficit. So far the Committee has agreed to changes in health care programs that save \$8.3 billion between now and 1987, over and above the provisions in S. 2062. In addition, the Committee agreed to tax reform and modest revenue raisers that generate \$48.1 billion between now and 1987, provided at least that amount of spending reduction can be achieved. The House Ways and Means Committee has also reported a \$50 billion tax bill, so we may be on our way.

Recovery--What progress have we made

Strength of recovery

- A strong recovery is on track and appears to be moderating to a pace that can be sustained in the years ahead. As an indication, look at the expansion of real gross national product. It grew by 9.7% in the second quarter of 1983, 7.9% in the third quarter, and an estimated 4.5% in the fourth quarter. By this measure, the recovery is the strongest since 1961.
- Housing starts are running at a rate of about 2.2 million units a year, and jumped 11.2 % in February.
- Industrial output in 1983 rose 6.5%, and factory utilization is up to 80.7%--the highest level in two years, and close to the normal capacity of 82%.
- The Commerce Department's survey of business plans for 1984 show that business plans to increase capital investment by 16%--this is higher than that seen at comparable points in previous postwar recoveries.

Inflation

- The best news about this recovery is that it is noninflationary. In 1983 the producer price index rose just 0.6%--the lowest increase since 1964. The CPI for 1983 was 3.8%, the lowest since 1972. Continued moderation in producer prices indicates low inflation will continue.

Creating Jobs

- People are going back to work, and the pace of job creation has been unusually high for a postwar recovery. On January 6 the Labor Department announced the civilian unemployment rate dropped from 8.4% last November to 7.8% in February. Overall, this means unemployment has dropped 2.9 percentage points over the past year.

- The continued strength of the recovery shows that recent growth in employment has not just been a statistical fluke, but shows a real turnaround in the labor market. Unemployment fell 230,000 in December, and there have been 4.9 million jobs created in the last year.
- What is more, the growth in jobs is broad-based. While manufacturing industries showed the most dramatic gains, all industries other than government and agriculture showed dramatic drops in unemployment.

PRELIMINARY ESTIMATES OF THE SENATE FINANCE COMMITTEE PACKAGE

<u>SPENDING</u>	<u>1984-87 Total</u> <u>(Savings in \$ Billions)</u>		<u>1984-87 Total</u> <u>(in \$ Billions)</u>
<u>Reconciliation (S. 2062)</u>		<u>Reconciliation Tax Provisions (S. 2062)</u>	21.4
Finance Committee provisions	3.8	<u>Additional Revenue Items:</u>	
<u>Additional Spending Reductions</u>		Tax shelter, accounting abuse, and corporate reform	10.2
*Part B Premium	0.4	Tax Federal Home Loan Mortg. Corp.	0.3
*Delay in Initial Eligibility for Medicare	0.6	Tax benefit rule	0.8
Working Aged	1.1	Alcohol and tobacco collections	0.5
*Physician Freeze	0.8	Freeze ACRS expensing, ITC for used prop. and foreign income exclusion	1.9
Hospital Market Basket	1.1	Postpone finance lease rules	2.7
Lab Fee	0.9	Extend telephone-excise tax	3.2
Medicaid Reduction	1.4	Modification of Sec. 1231	0.2
Alcohol Rebate	0.9	Factoring of trade receivables	1.4
Revaluation of Assets	0.3	Source of shipping income	0.2
Lesser of costs of charges	0.3	Recharacterization of U.S. income as foreign source income	0.3
Competitive Bidding/Claims	0.1	Trust distributions	0.7
Round Part B Payments	0.2	Income averaging modification	1.6
SNF Rates	(0.1)	Delay in ESOP	0.4
Grace Commission	3.1	Corporate preference exclusion increase	0.5
Debt Service	9.6	Increase distilled spirits tax	1.0
Total	24.5	Deferred rent on real and taxable property	1.7
		Repeal dividend reinvestment	0.4
		Installment sale recapture rule	0.2
		20-year life for structures	4.2
		Other miscellaneous revenue increase proposals	2.6
		<u>Major Revenue Loss Provisions:</u>	
		Spousal IRAs	-0.9
		Enterprise zones	-1.3
		R&D credit extension and expansion	-2.0
		R&D foreign source allocation	-0.2
		Targeted jobs tax credit	-1.6
		Life insurance tax change	-1.1
		Earned income tax credit	-0.4
		Mortgage revenue bond extension- IDB package	-0.6
		Grand Total	548.1

March 27, 1984

UNEMPLOYMENT COMPENSATION

Recent Data

- o An impressive spurt in employment pushed the February unemployment rate from 8.0% to 7.8%. 700,000 new jobs were created last month.
- o The employment gains were more than sufficient to accommodate a rise in the labor force of 500,000 job-seekers. As a result, total unemployment fell by 225,000 in February.
- o Total civilian employment now stands at 103.9 million, an increase of 4.9 million jobs since the end of the recession. This represents the largest employment gain of any post-war recovery, over a comparable period. Unemployment is now below 9.0 million, at 8.8 million. (Keep in mind that there were already 8.0 million unemployed in January 1981. If the Democrats will accept responsibility for that amount, we'll take the blame for the other 800,000.)
- o Since the end of the recession, the number of jobless has fallen by 3.2 million.
- o Minorities were big gainers in February. The unemployment rate for Blacks fell by .5% to 16.2%, while Hispanics' rate declined a full percentage point to 10.2%. The unemployment rate for adult men declined to 7.0%. All groups experienced a drop in unemployment last month.
- o Given the continued strength of the economy, as exemplified by the leading indicators and strong sales and factory orders, it seems likely now that the unemployment rate will continue to fall throughout 1984, hitting or perhaps falling below 7% by November. This, of course, assumes that the Fed does not significantly tighten credit in 1984.

Federal Supplemental Compensation Program

- o The Tax Equity and Fiscal Responsibility Act of 1982 contained provisions establishing a third tier of unemployment compensation benefits to respond to the rising unemployment rates being felt in late summer of 1982. That program, originally scheduled to end in December of 1982 was extended in the Surface Transportation Act of 1982 and in the Social Security Amendments of 1983.
- o On October 24, 1983 the President signed an 18-month extension of the FSC program. The new expiration date is March 31, 1985. Over the life of the FSC program, benefits totalling \$9.5 billion will have been paid to over 10 million people. This represents a substantial commitment to unemployed workers by the American taxpayer and the Administration.
- o No proposals dealing with the Unemployment Insurance Program were included in the President's FY85 budget.

May 1, 1984

ISRAELI FREE-TRADE AREA PROPOSAL

- DURING PRIME MINISTER SHAMIR'S VISIT LAST NOVEMBER, HE AND PRESIDENT REAGAN AGREED TO PURSUE THE IDEA OF A UNITED STATES-ISRAEL FREE-TRADE AREA. I HAVE BEEN CONSULTED ABOUT SUCH A PLAN; I FULLY SUPPORT IT IN PRINCIPLE; AND I HAVE AGREED TO SPONSOR IT ON THE PRESIDENT'S BEHALF.
- A COMMITTEE HEARING ON THE PROPOSAL WAS HELD FEBRUARY 6. USTR AND THE ITC ALSO HAVE HELD HEARINGS ON THE POSSIBLE EFFECTS OF THE PROGRAM ON DOMESTIC INDUSTRIES.
- A FREE-TRADE ARRANGEMENT OBVIOUSLY WILL REINFORCE THE ALREADY CLOSE POLITICAL TIES BETWEEN AMERICA AND ISRAEL. BUT IT ALSO IS FUNDAMENTALLY IN THE BEST ECONOMIC INTERESTS OF THIS COUNTRY:

(1) THE U.S. ENJOYS A TRADE SURPLUS WITH ISRAEL, EVEN THOUGH ISRAELI EXPORTERS ALREADY ENJOY PREFERENTIAL ACCESS TO THE U.S. MARKET UNDER THE GENERALIZED SYSTEM OF PREFERENCES. THE LOWERING OF TARIFF BARRIERS IN ISRAEL SHOULD BOOST U.S. EXPORTS, PARTICULARLY IN THE MANUFACTURING SECTOR, WHICH HAS BEEN TAKING SUCH A BEATING IN INTERNATIONAL TRADE RECENTLY.

(2) THE EUROPEAN COMMUNITY ALREADY HAS A FREE-TRADE ARRANGEMENT WITH ISRAEL. WHEN IT IS FINALLY PHASED IN IN 1985, U.S. EXPORTERS WILL FACE AN INCREASING DISADVANTAGE COMPARED TO THEIR E.C. COMPETITORS. THE PROPOSED FREE-TRADE AREA WILL ELIMINATE THAT DISADVANTAGE.

- I EXPECT GENERAL SUPPORT FOR THE PROPOSAL IN CONGRESS. HOWEVER, ORGANIZED LABOR HAS OPPOSED ALL IMPORT LIBERALIZING MEASURES RECENTLY, AND OPPOSES THIS PLAN ALSO. FURTHER, IMPORT-SENSITIVE SECTORS WILL SEEK EXEMPTIONS; FOR EXAMPLE, TEXTILES, JEWELRY, AND CERTAIN AGRICULTURAL PRODUCTS COME TO MIND (I.E., TOMATOES). IT MAY BE NECESSARY TO PROVIDE IN THE ARRANGEMENT SOME SAFEGUARD FOR THESE INDUSTRIES.

- TRADE DATA:

IN 1983, TOTAL U.S. IMPORTS FROM ISRAEL WERE \$1.2 BILLION WHILE U.S. EXPORTS TOTALED \$1.7 BILLION. NINETY PERCENT OF ISRAELI EXPORTS TO THE UNITED STATES ENTERED DUTY-FREE, EITHER BECAUSE OF THE GSP OR BECAUSE OF ZERO-DUTY RATES. ABOUT FORTY PERCENT OF U.S. EXPORTS TO ISRAEL WERE DUTIABLE IN 1983.